



# Energy Situation Analysis Report

Last Updated: March 13, 2003  
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## Latest Oil Market Developments

The West Texas Intermediate (WTI) crude oil near-month futures price on the New York Mercantile Exchange (NYMEX) rose by \$1.11 per barrel on Wednesday, March 12 to settle at \$37.83 per barrel as fears over war in Iraq combined with reports of declining U.S. oil inventories raised concerns over oil supply security. The fall in U.S. stocks added to worries that OPEC would not be able to compensate for lost Iraqi exports in the event of war. On Thursday, March 13, WTI prices fell by \$1.82 per barrel after White House spokesman Ari Fleischer said that the U.S. is open to extending efforts to find a way for Iraq to disarm peacefully. Oil prices were also pulled lower by forecasts for above-normal temperatures in the U.S. Northeast, where 76 percent of the U.S. heating oil is consumed, and on an expected rise in U.S. refinery production that would increase inventories of heating oil and gasoline. [more...](#)

## Latest U.S. Weekly EIA Petroleum Information

The average world crude oil price on March 7, 2003 was \$31.71 per barrel, \$0.10 less than last week but \$10.25 more than last year. The U.S. average retail price for regular gasoline rose last week for the twelfth time in thirteen weeks, increasing by 2.6 cents per gallon as of March 10 to reach 171.2 cents per gallon, which is 48.9 cents per gallon higher than a year ago. This price is only 0.1 cent lower per gallon than the highest price in nominal dollars since EIA began recording this data in August 1990. [more...](#)

## World Oil Market Highlights

As of March 6, 2003, EIA estimates that OPEC countries excluding Iraq and Venezuela hold etween 1.5 and 2.0 million barrels per day of excess oil production capacity that could be brought online. Around half to two-thirds of this spare capacity is located in one country -- Saudi Arabia -- with nearly all the rest located in other Persian Gulf countries. [more...](#)

## Latest U.S. Weekly Natural Gas Information

Since Monday, March 10, natural gas spot prices have continued the week-long softening pattern with declines of more than 85 cents per MMBtu at most market locations. The steepest declines occurred in the Northeast, Midwest, and Rocky Mountains regions where price declines ranged from \$1.40 to \$2.15 per MMBtu. Prices at the New York citygate fell \$1.88 per MMBtu since Monday; however, they remain among the highest in the nation at \$7.54. Prices on the Algonquin system, which serves the New England region, tumbled \$2.22 per MMBtu since last Tuesday, falling to \$7.50 per MMBtu. [more...](#)

## Latest U.S. Coal Information

Over-the-counter (OTC) coal prices were mixed last week. Central Appalachian coal gained \$0.75 and sold for the \$35.00 per short ton price that producers have long awaited, at least for the Central Appalachia/Big Sandy-Kanawha 12,500-Btu product tracked by EIA. Northern Appalachian, and Uinta Basin OTC prices were unchanged at \$22.60 and \$17.05 per short ton, respectively. The Illinois Basin coal regained the \$0.50 by which it has fluctuated the past 5 weeks and Powder River Basin coal declined by \$0.20 to \$6.00 per short ton. Coal prices in all supply regions are below the peak prices of summer 2001. [more...](#)

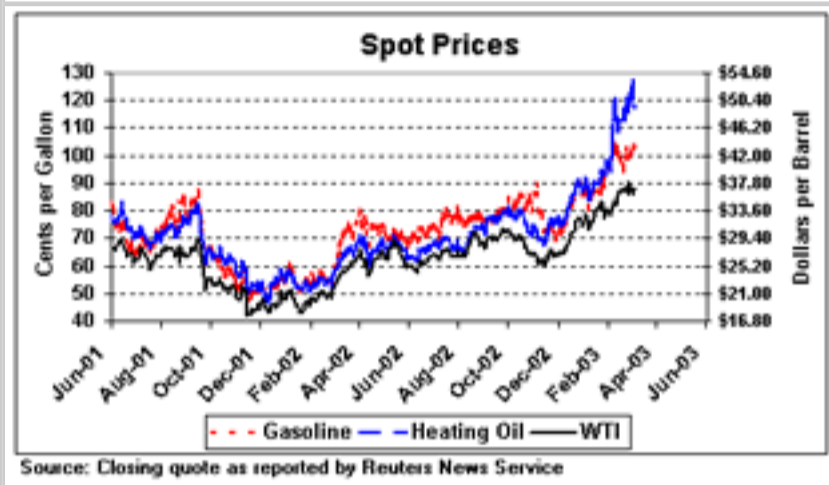
## Latest U.S. Electricity Information

Responding to declining natural gas prices and mild weather, Western spot electricity prices have been on a downward trend for the last seven trading days. Similar to patterns in the Western region, Midwest prices dropped significantly on March 11 and March 12 because of a reduction in the price of natural gas and higher temperatures lowering heating demand. Similarly, in the Southeast, electricity prices decreased during the past two trading days as temperatures continued to rise. In the Northeast, milder temperatures generally caused prices and customer demand to decrease on March 11 and 12, but New England's prices increased slightly on March 12. Nepoch prices continued to break the \$100 mark until March 11 when it went down to a seven-day low of \$90 per megawatthour, which is the lowest price New England has experienced in 2 weeks. Over the past seven days, average prices at all trading centers ranged between \$59.93 and \$85.59 per megawatthour with an overall weekly average of \$76.64 per megawatthour. [more...](#)

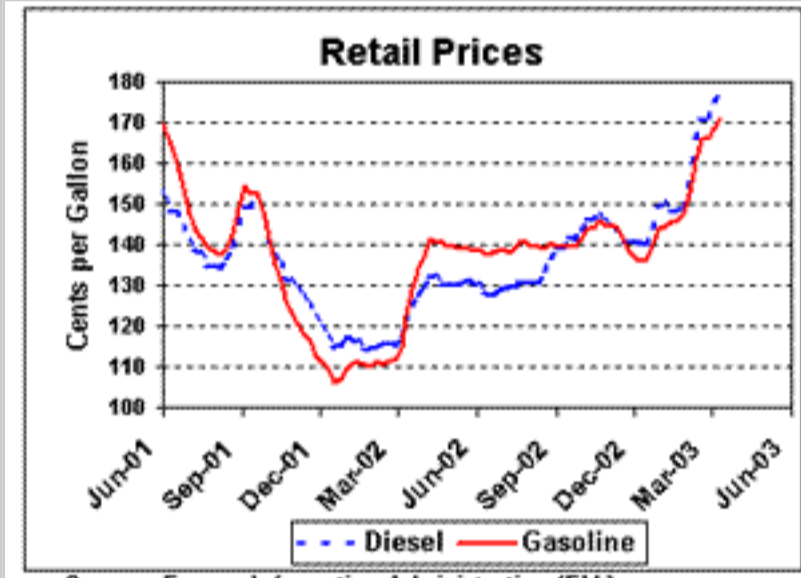
## Energy Prices\*

| Petroleum Futures (near month) | 3/12/03 | 3/11/03 | Change |
|--------------------------------|---------|---------|--------|
| WTI (\$/Bbl)                   | 37.83   | 36.72   | +1.11  |
| Gasoline (c/gallon)            | 111.39  | 109.87  | +1.52  |
| Heating Oil (c/gallon)         | 103.52  | 103.02  | +0.50  |
| Natural Gas (\$/MMBtu)         |         |         |        |
| Henry Hub                      | 5.78    | 6.25    | -0.47  |
| California                     | 5.63    | 6.35    | -0.72  |
| New York City                  | 7.54    | 7.75    | -0.21  |
| Electricity (\$/Megawatthour)  |         |         |        |
| COB                            | 52.38   | 53.13   | -0.75  |
| PJM West                       | 72.98   | 75.64   | -2.66  |
| NEPOOL                         | 90.42   | 90.00   | +0.42  |
| Average                        | 59.93   | 62.83   | -2.90  |

[\\*Definitions](#)



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## Latest Oil Market Developments

(updated March 13, 2003)

The West Texas Intermediate (WTI) crude oil near-month (April) futures price on the New York Mercantile Exchange (NYMEX) fell by \$1.82 per barrel on Thursday, March 13, after White House spokesman Ari Fleischer said the U.S. is open to extending efforts to find a way for Iraq to disarm peacefully. Oil prices were also pulled lower by forecasts for above-normal temperatures in the U.S. Northeast, where 76 percent of the U.S. heating oil is consumed, and on an expected rise in U.S. refinery production that would increase inventories of heating oil and gasoline. Crude oil prices had risen by \$1.11 per barrel on Wednesday, March 12 to settle at \$37.83 per barrel, as fears over war in Iraq combined with reports of declining U.S. oil inventories raised concerns over oil supply security. The fall in U.S. stocks added to worries that OPEC would not be able to compensate for lost Iraqi exports in the event of war. The International Energy Agency (IEA) said that OPEC lacks enough capacity to compensate immediately should there be a loss of Iraqi and Kuwaiti oil. The IEA's monthly report noted that the global oil system was "running on empty" and that a further supply disruption would "tax a system running close to capacity."

Mediation efforts continue in an effort to resolve the strike in [Venezuela](#), now in its fourth month, without much apparent progress. The Venezuelan government announced that force majeure on crude oil and some petroleum product exports was lifted as of March 6. Venezuela's oil and product exports, recovering from a two-month oil strike, held steady at 1.14 million barrels per day in early March, a report by dissident oil workers said. More than one-third of Petroleos de Venezuela (PdVSA)'s employees have been terminated since the beginning of the strike, and President Hugo Chavez has said that they will not be rehired. The government, which enlisted replacement workers and troops to restart the industry during the strike, said this week that exports in February averaged 1.132 million barrels per day.

Oil prices have been pushed sharply higher in recent months (up over 50% since mid-November) by generally falling commercial crude oil stocks in the United States , a colder-than-normal winter in the U.S. Northeast, and continued fears that a war with Iraq could adversely affect Middle Eastern oil supplies. Oil markets fear that if a war with Iraq were to occur while Venezuelan oil exports remain far below normal levels, this could strain the world's existing spare oil output capacity (estimated at 1.5-2.0 million barrels per day) to its limit. Nearly all of this "excess capacity" is located in OPEC member countries, particularly Saudi Arabia (0.8-1.3 million barrels per day) the UAE (350,000 barrels per day), and Qatar (110,000 barrels per day), all of which are located in the Persian Gulf region.

Other issues related to **world oil markets** include:

- Saudi Oil Minister Ali al-Naimi repeated that he was confident that OPEC and Saudi Arabia would deliver more oil in case of war in Iraq. "I'm confident that OPEC in general and Saudi Arabia in particular will deliver," al-Naimi said in response to a report from the International Energy Agency (IEA) saying that output increases over the past two months had left effective spare capacity in OPEC at just 900,000 barrels per day. "What about the IEA? I believe we have plenty (of oil) and our capacity has not been tested," al-Naimi said. OPEC says that it has three million barrels of spare oil production capacity.
- Oil exports from Saudi Arabia and Canada to the United States increased in January as shipments from Venezuela continued to fall, the Energy Information Administration said. Saudi Arabia and Canada exported 1.82 and 1.621 million barrels per day to the U.S., respectively, in January, up from 1.815 and 1.311 million barrels per day in December. Crude oil imports from Venezuela fell steeply again in January to 390,000 barrels per day from 652,000 barrels per day in the previous month. Iraqi oil exports to the United States averaged 600,000 barrels per day in January, up from 366,000 barrels per day in the previous month.
- February exports of crude oil from the former Soviet Union fell 220,000 barrels a day versus January to 3.93 million barrels per day because of bad weather and shipping delays, tanker tracker Petrologistics said. Gasoil exports surged by 130,000 barrels per day to 825,000 barrels per day to meet extremely strong U.S. demand for heating oil during the unusually cold winter.
- As of March 13, 2003, the [U.S. Strategic Petroleum Reserve \(SPR\)](#) contained 599.3 million barrels of oil. The SPR has a maximum drawdown capability of 4.3 million bbl/d for 90 days, with oil beginning to arrive in the marketplace 15 days after a presidential decision to initiate a drawdown. The SPR drawdown rate declines to 3.2 million bbl/d from days 91-120, to 2.2 million bbl/d for days 121-150, and to 1.3 million bbl/d for days 151-180.

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As of early March 2003, EIA estimates that OPEC countries excluding Iraq and Venezuela hold between 1.5 and 2 million barrels per day of excess oil production capacity that could be brought online. Between half and two-thirds of this spare capacity is located in one country -- Saudi Arabia -- with nearly all the rest located in four Persian Gulf countries: UAE, Qatar, Kuwait, and Iran. The estimates included in the table below incorporate the 1.5 million-barrel-per-day increase to the OPEC-10 production ceiling announced on January 12, 2003, as well as recent unrest in Venezuela.

| OPEC Crude Oil Production <sup>1</sup><br>(Thousand barrels per day) |                               |                                |                             |                               |                                     |   |
|--|-------------------------------|--------------------------------|-----------------------------|-------------------------------|-------------------------------------|---|
|  | January<br>2003<br>Production | February<br>2003<br>Production | March<br>2003<br>Production | 2/01/03<br>Quota <sup>2</sup> | Production<br>Capacity <sup>3</sup> | March<br>Surplus<br>Capacity <sup>3</sup> |
| Algeria  | 1,050                         | 1,050                          | 1,050                       | 782                           | 1,100                               | 50  |
| Indonesia  | 1,070                         | 1,060                          | 1,050                       | 1,270                         | 1,050                               | 0   |
| Iran   | 3,600                         | 3,700                          | 3,700                       | 3,597                         | 3,750                               | 50  |
| Kuwait <sup>4</sup>  | 2,000                         | 2,100                          | 2,100                       | 1,966                         | 2,100                               | 0   |
| Libya  | 1,350                         | 1,370                          | 1,370                       | 1,312                         | 1,400                               | 30  |
| Nigeria  | 2,100                         | 2,200                          | 2,200                       | 2,018                         | 2,300                               | 100                                       |
| Qatar  | 700                           | 740                            | 740                         | 635                           | 850                                 | 110                                       |
| Saudi Arabia <sup>4</sup>  | 8,500                         | 8,700                          | 9,200                       | 7,963                         | 10,000-<br>10,500 <sup>5</sup>      | 800-<br>1,300 <sup>5</sup>                |
| UAE <sup>6</sup>   | 2,050                         | 2,150                          | 2,150                       | 2,138                         | 2,500                               | 350                                       |
| Venezuela <sup>7</sup>   | 614                           | 1,400                          | 1,700                       | 2,819                         | 1,700                               | 0   |
| OPEC 10<br>Crude Oil<br>Total  | 23,034                        | 24,470                         | 25,260                      | 24,500                        | 26,750-<br>28,250 <sup>5</sup>      | 1,490-<br>1,990 <sup>5</sup>              |
| Iraq <sup>8</sup>  | 2,545                         | 2,390                          | 2,319                       | N/A                           | 2,900                               | 581                                       |
| OPEC<br>Crude Oil<br>Total   | 25,579                        | 26,860                         | 27,579                      | N/A                           | 29,650-<br>30,150 <sup>5</sup>      | 2,071-<br>2,571 <sup>5</sup>              |
| Other<br>Liquids <sup>9</sup>  | 2,761                         | 2,761                          | 2,761                       | N/A                           |                                     |   |
| Total<br>OPEC<br>Production  | 28,340                        | 29,261                         | 30,340                      | N/A                           |                                     |   |

NA: Not Applicable  
1Crude oil does not include lease condensate or natural gas liquids.  
2Quotas are based on crude oil production only.  
3Maximum sustainable production capacity, defined as the maximum amount of production that: 1) could be brought online within a period of 30 days; and 2) sustained for at least 90 days.  
4Kuwaiti and Saudi Arabian figures each include half of the production from the Neutral Zone between the two countries. Saudi Arabian production also includes oil produced from its offshore Abu Safa field on behalf of Bahrain.  
5 Saudi Arabia is the only country with the capability to further increase its capacity significantly within 90 days. Saudi Arabia can increase its sustainable production capacity to 10 million barrels per day within 30 days and to 10.5 million barrels per day within 90 days. As a result, the estimates for Saudi Arabia are as shown as a range, with the lower figure using the 30 days' definition and the upper end reflecting Saudi Arabia's 90 days' capability. OPEC's surplus capacity estimates are also shown as a range for this reason.  
6The UAE is a federation of seven emirates. The quota applies only to the emirate of Abu Dhabi, which controls the vast majority of the UAE's economic and resource wealth.  
7Venezuelan capacity and production numbers exclude extra heavy crude oil used to produce Orimulsion. It has been estimated that it would take 4 months from the end of the current crisis for Venezuela to restore its pre-strike production capacity. Venezuelan production projections assume production remains at current levels.  
8Iraqi oil exports are approved by the United Nations under the oil-for-food program for Iraq established by Security Council Resolution 986 (April 1995) and subsequent resolutions. As a result, Iraqi production and exports have not been a part of any recent OPEC agreements.  
9Other liquids include lease condensate, natural gas liquids, and other liquids including volume gains from refinery processing.

| Major Sources of U.S. Net Petroleum Imports, 2002*<br>(all volumes in million barrels per day) |                       |                       |                               |
|--|-----------------------|-----------------------|-------------------------------|
|  | Net Total Oil Imports | Net Crude Oil Imports | Net Petroleum Product Imports |
| Canada   | 1.83                  | 1.42                  | 0.41                          |
| Saudi Arabia   | 1.55                  | 1.52                  | 0.03                          |
| Venezuela  | 1.37                  | 1.20                  | 0.17                          |
| Mexico   | 1.28                  | 1.49                  | -0.21                         |
| Nigeria  | 0.60                  | 0.57                  | 0.03                          |
| United Kingdom   | 0.47                  | 0.41                  | 0.06                          |
| Iraq   | 0.44                  | 0.44                  | 0.00                          |
| Norway   | 0.38                  | 0.34                  | 0.04                          |
| Angola   | 0.33                  | 0.32                  | 0.01                          |
| Net Imports  | 10.38                 | 9.04                  | 1.34                          |

\* Table includes all countries from which the U.S. imported (net) more than 300,000 barrels per day of total oil in 2002.

| Top World Oil Net Exporters, Jan.-Nov. 2002* |                      |                                       |
|--|----------------------|---------------------------------------|
|  | Country              | Net Exports (million barrels per day) |
| 1)   | Saudi Arabia         | 6.90                                  |
| 2)   | Russia               | 5.07                                  |
| 3)   | Norway               | 3.14                                  |
| 4)   | Iran                 | 2.48                                  |
| 5)   | Venezuela            | 2.48                                  |
| 6)   | United Arab Emirates | 1.93                                  |
| 7)   | Nigeria              | 1.86                                  |
| 8)   | Mexico               | 1.68                                  |
| 9)   | Kuwait               | 1.64                                  |
| 10)  | Iraq                 | 1.56                                  |
| 11)  | Algeria              | 1.26                                  |
| 12)  | Libya                | 1.20                                  |

\*Table includes all countries with net exports exceeding 1 million barrels per day in Jan.-Nov. 2002.

During 2002, slightly over half of U.S. net crude oil imports came from the Western Hemisphere (19% from South America,16% from Canada, 16% from Mexico, 1% from the Caribbean), while nearly one-fourth came from the Persian Gulf region (17% from Saudi Arabia, 5% from Iraq, 2% from Kuwait).

In general, OECD Europe depends far more heavily on the Persian Gulf and North Africa for oil imports than does the United States. Japan receives over three-quarters of its oil supplies from the Persian Gulf (mainly the UAE, Saudi Arabia, Kuwait, Iran, and Qatar) with the remainder coming from Indonesia, China, and other sources.

Having provided this information, it is important to stress that oil is a "fungible" (interchangeable, traded on a world market) commodity, that a disruption of oil flows anywhere will affect the price of oil everywhere, and that the specific suppliers of oil to a particular country or region are not of enormous significance, at least from an economic point of view.

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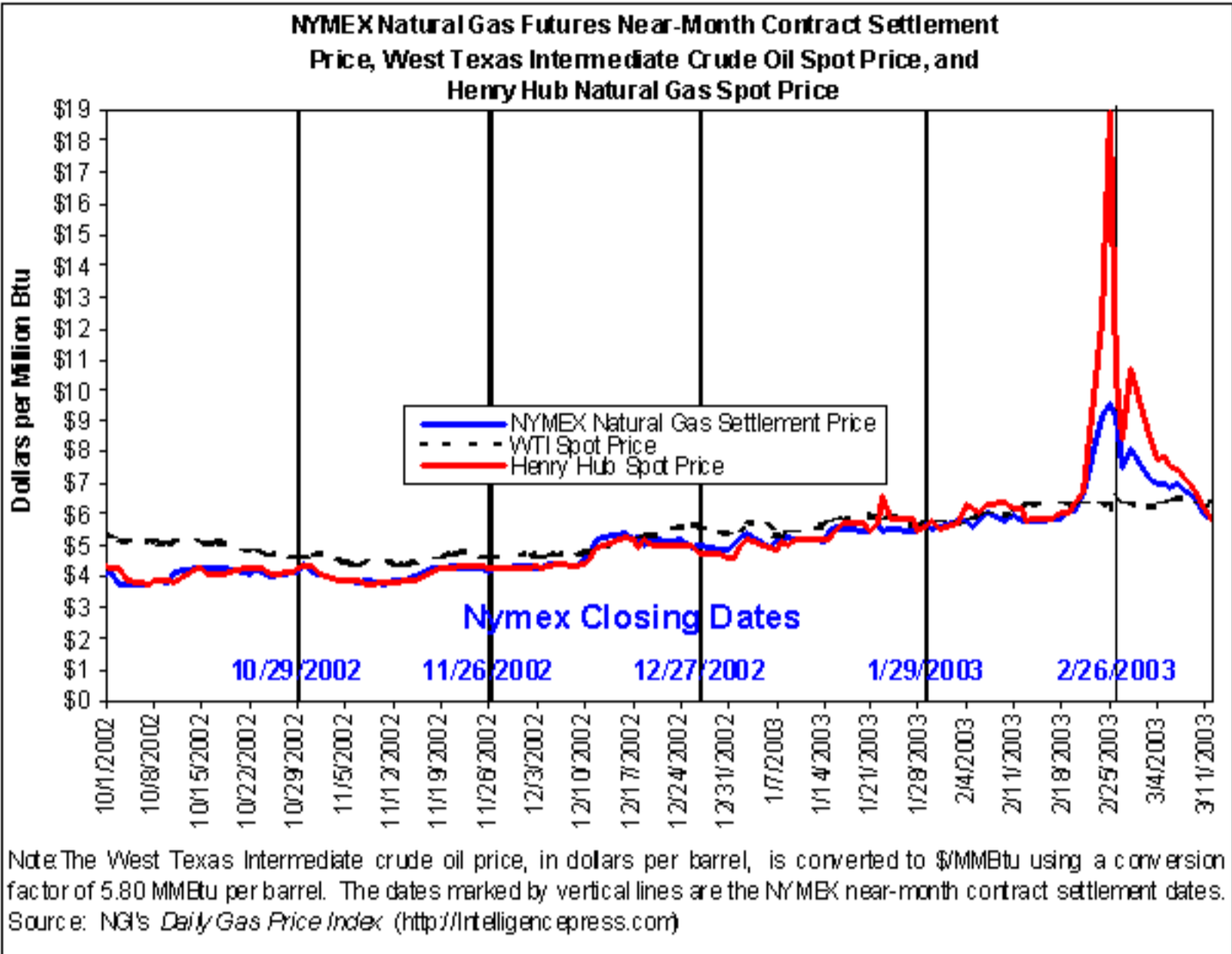
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Prices

Since Monday, March 10, spot prices have continued the week-long softening pattern with declines of more than 85 cents per MMBtu at most market locations. The steepest declines occurred in the Northeast, Midwest, and Rocky Mountains regions where price declines ranged from \$1.40 to \$2.15 per MMBtu. Prices at the New York citygate fell \$1.88 per MMBtu since Monday; however, they remain among the highest in the nation at \$7.54. Prices on the Algonquin system, which serves the New England region, tumbled \$2.22 per MMBtu since last Tuesday, falling to \$7.50 per MMBtu..

At the NYMEX, the price of the futures contract for April delivery at the Henry Hub declined 65 cents since Monday, March 10, to settle at \$5.865 per MMBtu on Wednesday, March 12. The price of the futures contracts for May 2003 delivery fell by roughly 37 cents per MMBtu to \$5.800 during the same period. The basis differentials between the Henry Hub spot price and the April and May futures contracts have declined since last week, and the spot price fell below the nearby month futures contract for the first time since February 19.



| Trade Date (All prices in \$ per MMBtu) | California Composite Average Price* | Henry Hub | New York City | Chicago | NYMEX futures contract-April delivery | NYMEX futures contract-May delivery |
|---|-------------------------------------|-----------|---------------|---------|---------------------------------------|-------------------------------------|
| 2/12/2003                               | 5.43                                | 6.20      | 10.92         | 6.27    | 5.560                                 | 5.315                               |
| 2/13/2003                               | 5.27                                | 5.84      | 9.30          | 5.88    | 5.550                                 | 5.350                               |
| 2/14/2003                               | 5.25                                | 5.87      | 10.49         | 5.92    | 5.644                                 | 5.439                               |
| 2/18/2003                               | 5.41                                | 6.10      | 10.11         | 6.12    | 5.710                                 | 5.500                               |
| 2/19/2003                               | 5.38                                | 6.10      | 7.88          | 6.12    | 5.909                                 | 5.619                               |
| 2/20/2003                               | 5.61                                | 6.39      | 7.75          | 6.39    | 5.980                                 | 5.684                               |
| 2/21/2003                               | 5.83                                | 6.74      | 9.65          | 7.48    | 6.318                                 | 5.953                               |
| 2/24/2003                               | 9.03                                | 12.26     | 24.91         | 14.41   | 7.622                                 | 6.842                               |
| 2/25/2003                               | 9.55                                | 18.85     | 25.67         | 18.19   | 6.584                                 | 5.859                               |
| 2/26/2003                               | 7.55                                | 10.36     | 13.35         | 10.62   | 7.390                                 | 6.230                               |
| 2/27/2003                               | 7.25                                | 8.45      | 10.49         | 8.40    | 7.485                                 | 5.965                               |
| 2/28/2003                               | 8.98                                | 10.65     | 15.78         | 15.24   | 8.101                                 | 6.071                               |
| 3/3/2003                                | 8.44                                | 8.56      | 11.53         | 9.32    | 7.162                                 | 5.952                               |
| 3/4/2003                                | 8.47                                | 7.76      | 9.58          | 9.51    | 7.041                                 | 5.991                               |
| 3/5/2003                                | 8.43                                | 7.81      | 12.04         | 9.01    | 7.021                                 | 5.971                               |
| 3/6/2003                                | 7.54                                | 7.59      | 10.82         | 7.84    | 6.844                                 | 6.064                               |
| 3/7/2003                                | 6.99                                | 7.42      | 10.11         | 7.88    | 6.993                                 | 6.303                               |
| 3/10/2003                               | 6.97                                | 6.79      | 9.42          | 7.41    | 6.515                                 | 6.165                               |
| 3/11/2003                               | 6.35                                | 6.25      | 7.75          | 6.54    | 5.944                                 | 5.810                               |
| 3/12/2003                               | 5.63                                | 5.78      | 7.54          | 5.93    | 5.865                                 | 5.800                               |

\* Average of NGI's reported average prices for: Malin, PG&E citygate, and Southern California Border Average.

Source: NGI's *Daily Gas Price Index* (<http://intelligencepress.com>)

Natural Gas Storage

Working gas in storage was 721 Bcf as of Friday, March 7, 2003, according to the EIA Weekly Natural Gas Storage Report, which is roughly 48 percent below the 5-year average for the report week. Working gas in storage for the Lower 48 States already is less than the previous low at the end of the traditional heating season (March 31), although still above the minimum of 697 Bcf, which was recorded on April 12, 1996. The implied net withdrawal for the week was 117 Bcf, which is nearly double the 5-year average of 63 Bcf for the week.

| All Volumes in Bcf | Current Stocks 3/7/2003 | Estimated Prior 5-year (1998-2002) Average | Percent Difference from 5-Year Average | Implied Net Change from Last Week | One-Week Prior Stocks 2/28/2003 |
|--------------------|-------------------------|--|--|-----------------------------------|---------------------------------|
| East Region        | 331                     | 748  | -55.7%                                 | -72                               | 403                             |
| West Region        | 179                     | 189  | -5.3%                                  | -19                               | 198                             |
| Producing Region   | 211                     | 439  | -51.9%                                 | -26                               | 237                             |
| Total Lower 48     | 721                     | 1,376                                      | -47.6%                                 | -117                              | 838                             |

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database.

Industry/Market Developments

Department of Labor's Bureau of Labor Statistics (BLS) Released Updated Price Information for Gas Consumers: The BLS released its most recent Producer Price Index (PPI) report, including statistics for natural gas, on February 20. According to the PPI, natural gas prices to end-users continued to increase between December 2002 and January 2003. The largest price increases occurred in the electric utilities and industrial sectors where prices climbed more than 13 percent and 8 percent since December 2002, respectively. Meanwhile, prices in the commercial sector increased over 6 percent and prices in the residential sector increased roughly 4 percent since December 2002.

In the current climate of high gas prices, all customers have paid more, but there are some aspects of the system that mitigate the impact of the current high commodity prices. The most commonly cited prices in the trade press are the upstream commodity prices, which at the Henry Hub have increased 88 percent on average from November 2002 to the beginning of February. From November 2002 to January 2003, the average residential gas price increased 34 percent—less than half the increase in the commodity price. Residential gas prices do not increase proportionally as much as the commodity price because the commodity portion of residential gas prices typically is less than half the total delivered price to this sector. Additionally, most residential gas customers purchase their gas from a local distribution company (LDC), which typically purchases only a relatively small portion of its gas in the daily spot market. Much of the gas is acquired by LDCs under longer-term contracts, which would not reflect a recent price run-up. However, residential natural gas consumers can expect higher gas bills because of increased gas use for space heating, owing to colder temperatures this winter. As the temperatures became colder, which also contributed to the higher prices, households consumed more natural gas than they otherwise would have. As both price and volume increase, the total amount paid increases more than either price or volume alone.

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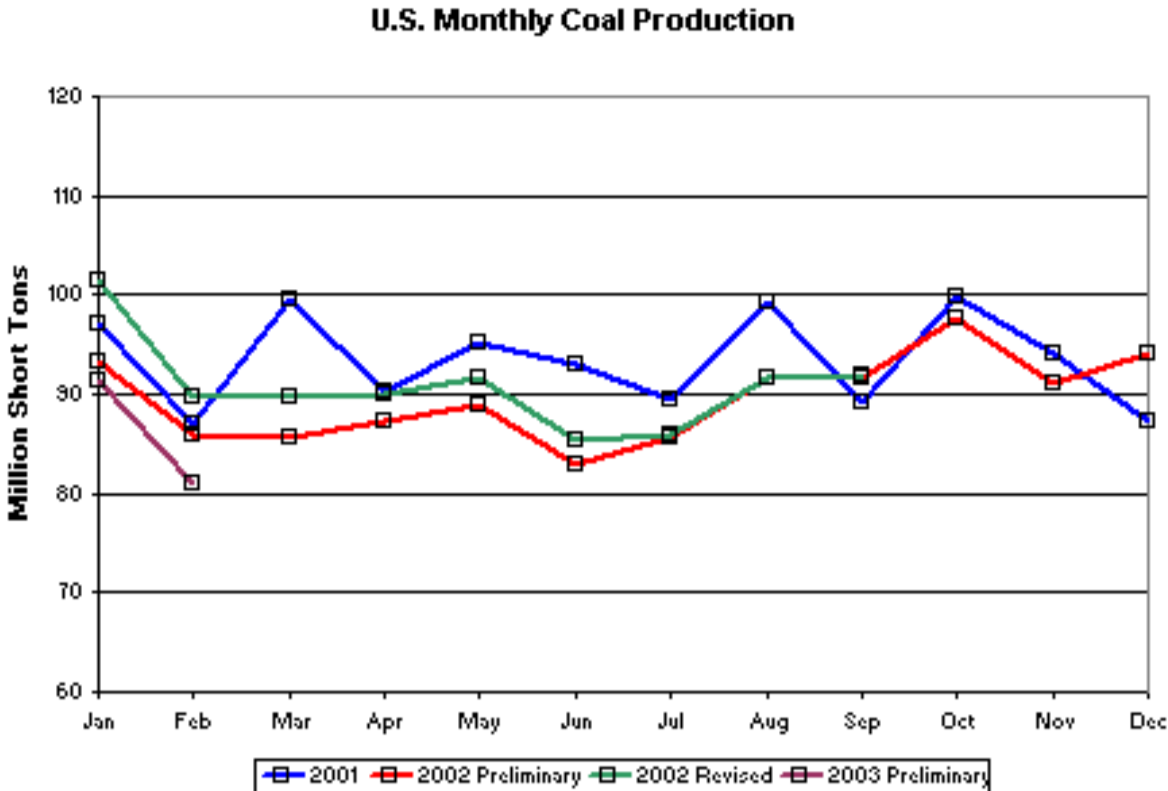
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## Latest U.S. Coal Information

### Coal Production (Updated March 13, 2003)

For the week ended March 8, estimated coal production totaled 20.3 million short tons (mmst), 0.7 mmst lower than in the comparable week in 2002. Railcar loadings of coal were 1.2% higher than year-ago levels; estimated national coal production was 3.2% lower. The estimated production for the month of February 2003 was 81.1 mmst, 9.7% lower than the 89.8 mmst in February 2002.

For the year to date, national coal production estimates are 10.2% lower than in 2002 – 6.2% lower west of the Mississippi and 14.7% lower in the East. The longer-term trend, for the 52 weeks ended March 8, 2003, versus the 52 weeks ended March 8, 2002, shows estimated western U.S. coal production at 1.1% above the levels of a year earlier. Estimated eastern U.S. coal production in the more recent period, however, is trending 8.2% below the levels a year earlier. The more recent estimate incorporates coal production survey data of the Mine Safety and Health Administration through the third quarter 2002.

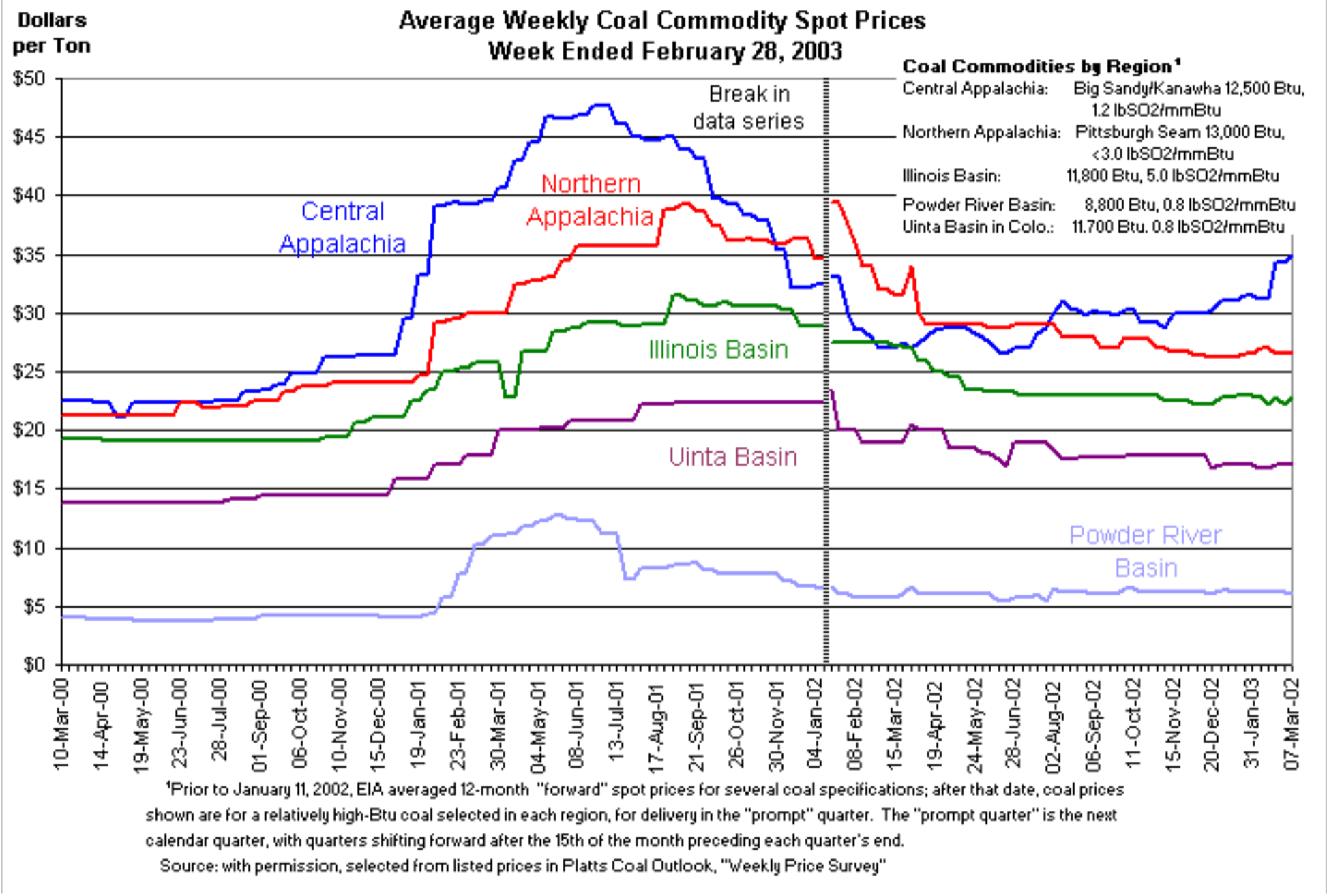


### Coal Prices (Updated March 11, 2003)

Over-the-counter (OTC) coal prices were mixed last week. Central Appalachian coal gained \$0.75 and sold for the \$35.00 per short ton price that producers have long awaited, at least for the Central Appalachia/Big Sandy-Kanawha 12,500-Btu product tracked by EIA. For a change, at least Central Appalachian coal seems to be responding to inherent demand, its prices increasing even as natural gas prices declined a bit and power producers look forward to moderating temperatures. On the other hand, natural gas in storage is below normal for this time of year, which should keep its prices elevated and encourage coal consumption at electricity plants. "Traders uniformly spoke of the lack of excess production and what a scramble it could be if demand suddenly increases. (Platts Coal Outlook, February 24). At best, however, the outlook is confused, as some analysts expect spot coal prices to continue upward this month and others feel that the increases will not occur until the 4th quarter of the year, during next winter's stockpile builds (Energy Argus Coal Daily, March 3, p.6).

Northern Appalachian, and Uinta Basin OTC prices were unchanged at \$22.60 and \$17.05 per short ton, respectively. The Illinois Basin coal regained the \$0.50 by which it has fluctuated the past 5 weeks and Powder River Basin coal declined by \$0.20 to \$6.00 per short ton. Coal prices in all supply regions are below the peak prices of summer 2001. Central Appalachian prices are now only about \$12.50 per short ton lower (27%), compared with \$16.50 lower 2 weeks earlier. Northern Appalachian coal prices are also lower by about \$12.50 per short ton, or 32% lower; Powder River Basin coal prices are lower by about \$6.75, or 53%, Illinois Basin coal prices lower by about \$9.00, or 28%, and Uinta Basin coal prices lower by about \$5.50, or 25%.

Coal futures trading volumes on the [NYMEX](#) added 45 trades last week, following 3 weeks of active trading in February. Settled prices for near-month (April) leveled off at \$31.50 per short ton and rise to \$33.75 for July deliveries in a slow trading market.



**Coal Markets** (Updated March 4, 2003) Coal supplies are famously short in Central Appalachia but available in Northern Appalachia. Illinois Basin and PRB coal supplies are adequate for anticipated demand. Uinta Basin coal is adequate for the moderate demand it serves, mostly in western States, but mines in the region have had to go off line in recent years at inopportune times, due to bad geology or hazards. At the same time, coal demand has been constrained and has not rebounded to any large extent. A number of factors are present that could affect markets now and into the 2nd quarter of 2003, with no consensus on which factor will be important. They include:

- Central Appalachian mines, some nearing depletion, others moving into thinner and deeper underground reserves
- Central Appalachian surface mine permitting had been on hold since last May due to litigation regarding valley fills
- European market coal prices at historical lows, as well as ocean collier freight rates, which may produce more competition from coal imports for coastal U.S. coal contracts
- The mergers of Fording Coal and Sherritt International in Canada consolidates metallurgical coal assets and steam coal assets under the two respective divisions; reorganization is structured to capture more of the international met coal market and more of the North American steam coal market
- Supply and financing uncertainties as several coal producers and energy companies in Northern Appalachia are in bankruptcy protection and are liquidating assets and reorganizing corporate structures
- West Virginia mine production affected by controversy, with new legislation currently being debated, over citizen safety and coal truck weight restrictions on public roads
- Several months of low water in Mississippi River affecting barge movements, may continue into spring and summer
- Drought and low snow pack conditions in northwestern United States expected to limit hydroelectric generation this year and increase demand on western coal capacity
- Historically high number of coal rail transportation rate appeals by shippers are under review by the Surface Transportation Board; concurrently, carriers are under pressure to raise railroad profitability

The next few months should prove interesting.

### Environmental Update (Updated February 11, 2003)

On January 30, Environmental Protection Agency (EPA) Administrator Christine Todd Whitman announced a report documenting reductions in some acid rain indicators in sensitive ecosystems of the United States (Response of Surface Water Chemistry to the Clean Air Act Amendments of 1990). The data confirm a large decrease in wet sulfate deposition across broad areas of the Northeast and Upper Midwest. The amount of wet sulfate – an acidic anion – deposited to lakes and streams declined by approximately 40 percent in the 1990s. These reduced levels can be linked to declines in emissions of sulfur oxides since implementation of the 1990 Clean Air Act Amendments. Because of differences in geology and soils, however, the rates of decline in sulfate concentrations in precipitation were generally steeper than in surface waters.

This was not unexpected and suggests that in most aquatic systems, sulfate recovery exhibits a somewhat lagged response. Further, the decline in surface waters that were acidic was more modest than the decline in wet sulfate. Just as anthropogenic acidification of surface waters did not take place all at once, recovery to natural levels will require some time. Although the study shows a ¼ to 1/3 decline in formerly acidic surface waters, the robustness of the change (the "acid neutralizing capacity") was marginal. The study authors believe their results point toward recovery, forecasting an improvement in biologically relevant surface water chemistry. Other indicators that showed improvement include regional increases in dissolved organic carbon and decreased concentrations of toxic aluminum in some sensitive areas. Nitrogen levels and base cation levels have not yet shown significant improvements. Even if improving, reactions involving these elements may be tied up in soil and native rock chemistry for years before results are seen in surface waters (<http://www.epa.gov/ord/htm/CAAA-ExecutiveSummary-1-29-03.pdf>).

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Latest U.S. Electricity Information

(March 13, 2003)

**Selected Wholesale Electricity Prices:** Responding to declining natural gas prices and mild weather, Western spot electricity prices have been on a downward trend for the last seven trading days. At the California-Oregon Border trading center, prices dropped to a seven-day low of \$52.38 per megawatthour on March 12 from a seven-day high of \$82.46 on March 4. At California’s NP-15 and SP-15, prices decreased to weekly lows of \$55.73 and \$55.22 per megawatthour on March 12 from weekly highs of \$84.75 and \$83.63 on March 4, respectively.

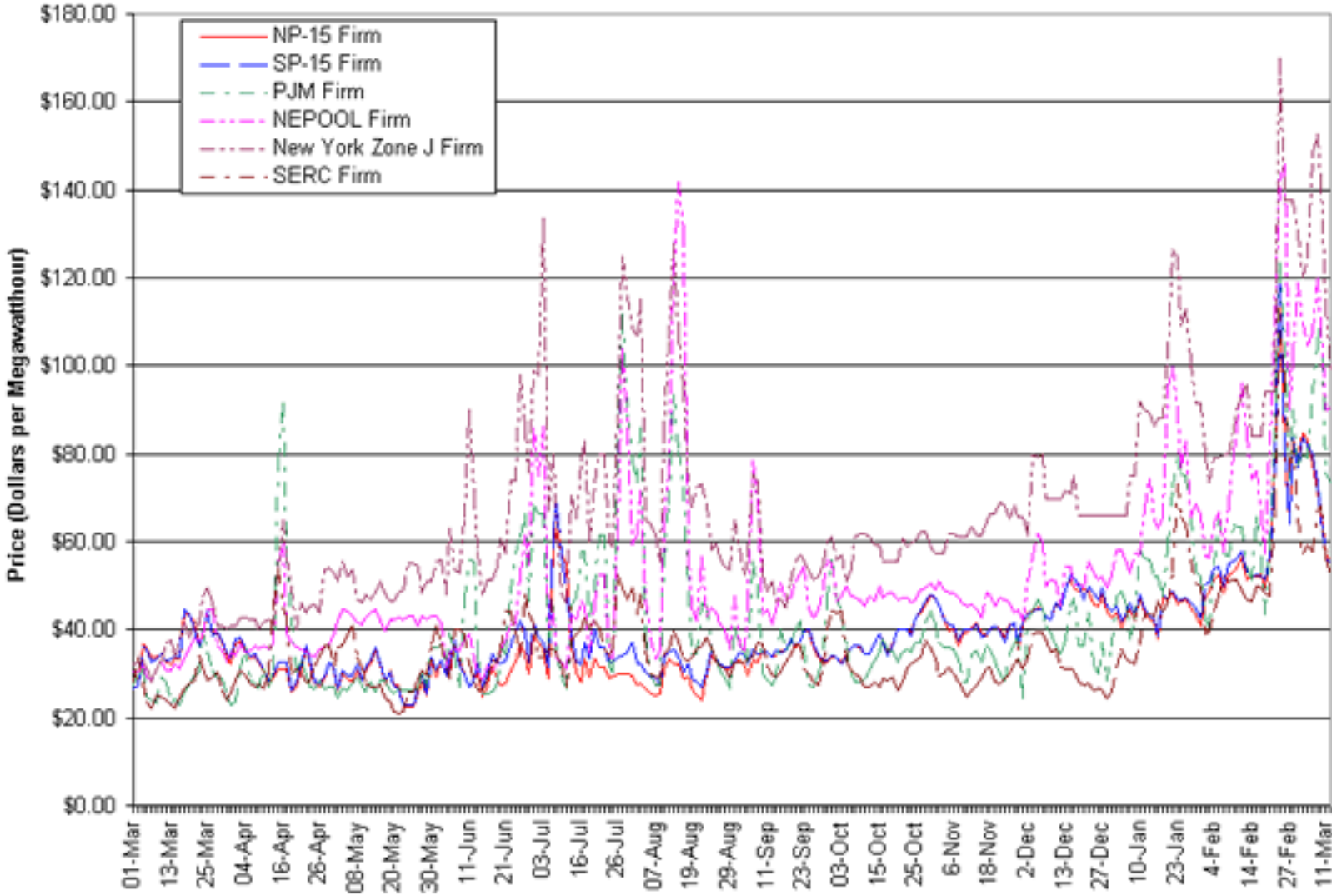
Similar to patterns in the Western region, Midwest prices dropped significantly on March 11 and March 12 because of a reduction in the price of natural gas and higher temperatures lowering heating demand. At the Cinergy Trading Center, prices tumbled to a seven-day low of \$41.31 per megawatthour on March 12 from a seven-day high of \$91.91 on March 7. Similarly, in the Southeast, electricity prices decreased during the past two trading days as temperatures continued to rise. Prices within the SERC trading area hit a weekly low of \$52.29 per megawatthour on March 12 from a weekly high of \$68.30 on March 10.

In the Northeast, milder temperatures generally caused prices and customer demand to decrease on March 11 and 12, but New England’s prices increased slightly on March 12. Nepool prices continued to break the \$100 mark until March 11 when it went down to a seven-day low of \$90 per megawatthour, which is the lowest price New England has experienced in 2 weeks. Prices at the New England Power Pool increased to \$90.42 on March 12. At PJM West, prices fell to a weekly low of \$72.98 per megawatthour on March 12 from a weekly high of \$111.07 on March 10. In New York City, electricity prices dropped to \$99 per megawatthour on March 12, the lowest price in 13 consecutive trading days, from a seven-day high of \$152.50 on March 7.

Over the past seven days, average prices at all trading centers ranged between \$59.93 and \$85.59 per megawatthour with an overall weekly average of \$76.64 per megawatthour.

| U.S. Regional Electricity Prices at Major Trading Centers (Dollars per megawatthour)   |        |        |        |        |         |         |         |             |       |         |
|--|--------|--------|--------|--------|---------|---------|---------|-------------|-------|---------|
| Trading Centers  | Date   |        |        |        |         |         |         | Price Range |       |         |
|  | 3/4/03 | 3/5/03 | 3/6/03 | 3/7/03 | 3/10/03 | 3/11/03 | 3/12/03 | Max         | Min   | Average |
|  |        |        |        |        |         |         |         |             |       |         |
| COB  | 82.46  | 80.50  | 77.00  | 70.00  | 61.50   | 53.13   | 52.38   | 82.46       | 52.38 | 68.14   |
| Palo Verde   | 80.16  | 76.95  | 74.12  | 67.82  | 59.89   | 49.71   | 49.60   | 80.16       | 49.60 | 65.46   |
| Mid-Columbia   | 77.29  | 77.08  | 75.06  | 68.48  | 59.69   | 50.22   | 48.26   | 77.29       | 48.26 | 65.15   |
| Mead/Marketplace   | 83.70  | 81.45  | 78.64  | 71.71  | 62.61   | 52.94   | 52.05   | 83.70       | 52.05 | 69.01   |
| 4 Corners  | 81.83  | 79.29  | 74.10  | 67.67  | 59.04   | 50.61   | 49.88   | 81.83       | 49.88 | 66.06   |
| NP 15  | 84.75  | 83.35  | 77.80  | 71.75  | 66.35   | 57.12   | 55.73   | 84.75       | 55.73 | 70.98   |
| SP 15  | 83.63  | 82.28  | 79.44  | 73.34  | 65.48   | 56.27   | 55.22   | 83.63       | 55.22 | 70.81   |
| PJM West   | 79.52  | 79.25  | 93.75  | 105.20 | 111.07  | 75.64   | 72.98   | 111.07      | 72.98 | 88.20   |
| NEPOOL   | 110.00 | 104.50 | 107.67 | 120.00 | 109.50  | 90.00   | 90.42   | 120.00      | 90.00 | 104.58  |
| New York Zone J  | 120.00 | 125.00 | 148.00 | 152.50 | 142.25  | 113.50  | 99.00   | 152.50      | 99.00 | 128.61  |
| Cinergy  | 65.23  | 55.15  | 57.69  | 91.91  | 80.76   | 48.51   | 41.31   | 91.91       | 41.31 | 62.94   |
| SERC   | 57.29  | 59.19  | 57.84  | 66.70  | 68.30   | 56.31   | 52.29   | 68.30       | 52.29 | 59.70   |
| Average Price  | 83.82  | 82.00  | 83.43  | 85.59  | 78.87   | 62.83   | 59.93   | 85.59       | 59.93 | 76.64   |
| Sources: COB, Palo Verde, Mid-Columbia, Mead/Market Place, Four Corners, NP-15, SP-15, PJM-West, NEPOOL, New York Zone J, Cinergy, and SERC trading centers. Used with permission from Bloomberg L.P. (www.bloomberg.com). |        |        |        |        |         |         |         |             |       |         |
| COB: Average price of electricity traded at the California-Oregon and Nevada-Oregon Borders.   |        |        |        |        |         |         |         |             |       |         |
| Palo Verde: Average price of electricity traded at Palo Verde and the West Wing, Arizona.  |        |        |        |        |         |         |         |             |       |         |
| Mid-Columbia: Average price of electricity traded at Mid-Columbia.   |        |        |        |        |         |         |         |             |       |         |
| Mead/Market Place: Average price of electricity traded at Mead Market Place, McCullough and Eldorado.  |        |        |        |        |         |         |         |             |       |         |
| Four Corners: Average price of electricity traded at Four Corners, Shiprock, and San Juan, New Mexico.   |        |        |        |        |         |         |         |             |       |         |
| NP-15: Average price of electricity traded at NP-15.   |        |        |        |        |         |         |         |             |       |         |
| SP-15: Average price of electricity traded at SP-15.   |        |        |        |        |         |         |         |             |       |         |
| PJM-West: Average price of electricity traded at PJM Western hub.  |        |        |        |        |         |         |         |             |       |         |
| NEPOOL Average price of electricity traded at Nepool.  |        |        |        |        |         |         |         |             |       |         |
| New York Zone J: Average price of electricity traded at the New York Zone J - New York City.   |        |        |        |        |         |         |         |             |       |         |
| Cinergy: Average price of electricity traded into the Cinergy control area.  |        |        |        |        |         |         |         |             |       |         |
| SERC: Average price of electricity traded into the Southeastern Electric Reliability Council.  |        |        |        |        |         |         |         |             |       |         |

Average Wholesale Electricity Prices in the U.S.



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## Definitions

### Petroleum

**WTI** – West Texas Intermediate (for the purposes of this table, prices provided are near month futures price) Cushing OK.

**Bbl** – Barrel (42 gallons).

**C's** – cents.

### Natural Gas

**Henry Hub** – A pipeline hub on the Louisiana Gulf coast. It is the delivery point for the natural gas futures contract on the New York Mercantile Exchange (NYMEX).

### Electricity

**COB** – average price of electricity traded at the California-Oregon and Nevada-Oregon border.

**Palo Verde** - average price of electricity traded at Palo Verde and West Wing Arizona.

**Average** - average price of electricity traded at all locations.